

Northern Ireland Electricity plc

**Consultation on Electricity
Licence Fee Methodology
(1 October 2010)**

NIE's Response

30 November 2010



Introduction

NIE is pleased to respond to the Utility Regulator's consultation on the methodology for determining electricity licence fees. We have the following comments on the optional methodologies that are outlined in the consultation document.

Option 1 - Make a determination to apply from 2011/12, applying the methodology used in the current interim determination which includes:

- Allowing for the issue of licence fee invoices at the start of the financial year and subsequent adjustment later in year and in the following financial year.
- Setting the de-minimis annual fee amount for "dormant" licences at £1,500, (to increase annually based upon the Retail Price Index (RPI)) thus aligning this fee across directorates within the Utility Regulator.

This is a reasonable methodology to adopt since it endeavours to spread the cost of regulation across the three main sectors of the Industry: transmission/distribution, generation and supply. It is important that it is periodically reviewed to ensure it remains cost reflective.

Option 2 - Apply CER's methodology

Whilst this methodology spreads the cost of regulation across the whole of the RoI electricity industry, it is not clear from the description given what proportion of the overall cost is borne by each sector. The method appears to be significantly more complex and administratively cumbersome than the current NI methodology.

Option 3 - Apply Ofgem's methodology

Adopting the Ofgem model fully would require a very substantial element of the total cost of regulation being charged to SONI. The paper suggests a different approach; namely that all licence fees be charged to NIE T&D. We do not consider that either approach would be correct. In NIE's view, the costs of regulation should be charged across each sector of the Industry on a basis that is cost reflective.

Reference is made in the consultation paper to Ofgem's costs being calculated "in accordance with its cost control regime". Since the Utility Regulator's costs are ultimately borne by customers, these ought to be subject to an efficiency formula which will facilitate strong cost control.

Option 4 – Continue the interim arrangements without any change

Whilst this option differs only marginally from Option 1, we consider that Option 1 is to be preferred for the reasons set out in the consultation paper.

Conclusion

We consider that the key principle that should determine the outcome of this review of licence fee methodology is cost reflectivity. As the consultation paper explains, this means that licence fees should reflect the full costs incurred by the Utility Regulator and that “individual licensees should bear an appropriate proportion of those costs”. We do not consider that Option 3 meets this basic requirement. Option 2 would appear to be difficult to administer. Provided it is shown to be cost reflective, Option 1 would seem to offer an acceptable charging methodology into the future. Given that these costs are borne ultimately by customers, we would stress the need to ensure that stringent cost control is applied by the Utility Regulator. As suggested above, an efficiency formula could be put in place to ensure that the costs of electricity regulation in Northern Ireland are kept to a minimum.